

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0855-01
Bill No.: HB 357
Subject: Economic Development; Political Subdivisions; Tax Credits
Type: Original
Date: February 21, 2011

Bill Summary: This proposal changes the laws regarding enhanced enterprise zones.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP. This proposal creates "dormant manufacturing plant zones" within the enhanced enterprise zone program. However, the authorization cap on the program remains \$24million. DED previously reported that \$17million was authorized under this program in FY10, but also projected \$24million in authorizations in FY11. To the extent this proposal increases the authorizations under this program, general and total state revenues may be reduced. This proposal may encourage other economic activity. BAP cannot estimate the induced revenues.

Officials at the **Department of Economic Development (DED)** assumes an unknown fiscal impact over \$100,000. DED anticipates an increase in the number of applications to review and process; however, the tax credit program cap remains unchanged. The proposed legislation also changes the carry-forward provision from ten years to five years. It also revises the calculation for the annual amount of credits allowed for an approved business enterprise. The proposed legislation also includes a new section that defines the process for "dormant manufacturing plant" projects and defines a "dormant manufacturing plant zone." DED assumes there would be an offset of unknown positive economic benefits as a result of the program expansion, therefore the exact amount of the impact cannot be determined.

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Enhanced Enterprise Zone tax credit program has had and projects the following activity;

	FY 2008	FY 2009	FY 2010	FY 2011 (projected)	FY 2012 (projected)
Certificates Issued (#)	18	31	52	65	75
Projects (#)	38	30	54	75	90
Amount Authorized	\$7,614,660	\$9,807,051	\$17,361,344	\$24,000,000	\$29,000,000
Amount Issued	\$1,199,842	\$2,262,259	\$2,916,392	\$6,300,000	\$7,300,000
Amount Redeemed	\$756,006	\$1,454,319	\$3,426,272	\$4,095,000	\$4,745,000

Officials at the **Department of Revenue (DOR)** assume DOR will need to make form changes. Additionally, the department and ITSD-DOR will need to make programming changes to various processing systems.

DOR's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget

ASSUMPTION (continued)

constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$8,904 which is 336 FTE hours.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

DOR's Personal Tax Division believes that due to the provisions in section 135.969 that creates a refundable credit to be applied to Chapter 143 taxes that they will need one Revenue Processing Technician I per 6,000 credits claimed. DOR's Corporate Tax Division will need one Revenue Processing Technician I per 6,000 credits claimed.

Oversight assumes it is unclear if the changes in this proposal would significantly increase the number of applicants for the tax credit or the number of tax credits issued. Therefore, Oversight assumes that DOR can handle any additional credits with existing staff. Should a significant number of credits be claimed as a direct result of this proposal then DOR could request the additional FTE through the appropriation process.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** and the **State Tax Commission** assume that there is no fiscal impact from this proposal.

Oversight assumes the changes to the existing programs in this proposal could have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposals and will not reflect them in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government

FY 2012
(10 Mo.)

FY 2013

FY 2014

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses located in the dormant manufacturing plant zone could be affected by this proposal.

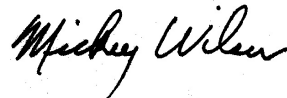
FISCAL DESCRIPTION

The proposed legislation appears to have no fiscal impact.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
State Tax Commission



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